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**FISCAL IMPACT STATEMENT**

**LS 6896**

**BILL NUMBER: SB 338**

**NOTE PREPARED:** Jan 20, 2004

**BILL AMENDED:**

**SUBJECT:** PERF Retiree Health Insurance.

**FIRST AUTHOR:** Sen. Rogers

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
                          X DEDICATED  
                          FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill establishes requirements for health insurance offered by the Public Employees' Retirement Fund (PERF) to members of the fund and their spouses, surviving spouses, and eligible dependents.

**Effective Date:** July 1, 2004.

**Explanation of State Expenditures:** This bill establishes a health insurance program for PERF retirees to be funded from (a) payments from retired PERF members who choose to participate in the program (at a cost of 1% of the member's retirement or disability benefit) and (b) a mandatory contribution by all active members of PERF (at a cost ranging from 1.25% to 2.5% of compensation based on years of creditable service). The mandatory contribution by active members would be deposited into the Health Insurance Fund established by the bill. The bill also requires PERF to provide a Medicare supplement plan, as well.

Health benefit coverage must be equal in coverage to the group health benefit plans available to active state employees. The total cost to a retired PERF member for the health insurance program must not exceed the total cost of the employee's and employer's premiums for group health insurance for an active employee of the state under IC 5-10-8 (current health program). Below is a table which shows the total annual costs, both employer and employee share, for 2004 for single and family coverage under the state's health program as provided by various plans.

Plan	Coverage/Annual Cost	
Anthem Trad	Single \$ 4,130	Family \$ 11,584
Anthem Trad II	Single \$ 3,886	Family \$ 10,700
Advantage I	Single \$ 5,455	Family \$ 13,760
Advantage II	Single \$ 5,081	Family \$ 12,819
Arnett I	Single \$ 4,547	Family \$ 12,277
Arnet II	Single \$ 4,570	Family \$ 11,223
M Plan I	Single \$ 4,674	Family \$ 11,791
M Plan II	Single \$ 3,810	Family \$ 10,668

Participants in the program are to contribute 1% of their retirement or disability benefit for coverage under this new plan. The specific costs involved will depend upon the number of people involved and the type of coverage selected. The PERF Board of Trustees would be required to pick up any remainder of the costs for the program should the insured's contribution and the Health Insurance Fund not be sufficient.

*Adverse Experience Factor:* Current statute allows retirees and surviving spouses to purchase group health insurance if they pay both the employer and employee share of health insurance premium. However, this cost does not include the adverse experience factor. The adverse experience factor is due to retirees being an older population with greater average health costs than the general active employee population. Based upon early retiree data enrolled in the state employee plan, the adverse experience factor associated with retirees is equal to about 2.45, meaning that retirees account for \$2.45 in claims expenses for every \$1 in claims expenses experienced by the group as a whole. (Source: State Department of Personnel) Based on an average blended rate for health care premiums over all plans (i.e., single vs. family policies by plan) and using the adverse experience factor, the annual average blended cost is estimated to be about \$21,800.

**Explanation of State Revenues:** This program is to be funded from (a) payments from retired PERF members who choose to participate in the program (at a cost of 1% of the member's retirement or disability benefit) and (b) a mandatory contribution by all active members of PERF (at a cost ranging from 1.25% to 2.5% of compensation based on years of creditable service).

The average contribution by retired members who choose to purchase the health insurance would be about \$53 per year based on the average PERF retirement benefit of \$5,237 in July of 2002.

The mandatory contribution by active members would be deposited into the Health Insurance Fund established by the bill. Based on July 1, 2002, salary data for both active state employees and active political subdivision employees, annual contributions are estimated to total approximately \$61.3 M. These contributions over time will depend upon the number of employees involved, their salaries, and their years of service.

Using the estimated blended cost of \$21,800, the annual contributions into the Health Insurance Fund could support about 2,800 policies.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** PERF.

**Local Agencies Affected:**

**Information Sources:** State Department of Personnel; 2002 PERF Actuarial Valuation.

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